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ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 23, 1982

MEMORANDUM FOR SECRETARY REGAN

FROM:

Marc E. Leland

SUBJECT: Report of July 22 SIG Meeting on Polish
Measures

The IG-IEP met on July 22, 1982, to review Polish measures taken on July 21, 1982. The group considered a preliminary written analysis of the measures, concluding that they fell short of meeting NATO's three criteria. This preliminary paper now has received agency comments (Tab A). The analysis will serve as a basis for instructions for our delegation to a NATO meeting, July 26, 1982, where this subject will be reviewed. (No decision will be taken at that meeting).

It was noted that the Europeans may use the Polish measures as a vehicle to advance discussions with the Poles on 1982 debt rescheduling. Most agencies agreed that these measures were insufficient to allow the creditor governments to proceed with either formal or "technical" talks (see Issue Paper, Tab B). If pressed by the Europeans to resume a dialogue with the Poles on their economic and financial situation, it was suggested that we might agree to review Poland's progress in its economic stabilization program as provided for in the Paris Minute of 1981.

Attachments

NSC review completed.

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Classified by Marc E. Leland
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 Declassification on 7/23/90

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JARUZELSKI'S JULY 21 SPEECH

The steps announced in General Jaruzelski's long awaited speech fall far short of meeting NATO's three criteria. In his speech, he:

-- said most internees, including all the women, will be released. The releases began yesterday. A Polish press spokesman put the number of detainees to be released at 1,227 claiming that only 637 remain behind bars -- a figure which is about 953 below our estimate. He did not, as anticipated, announce an amnesty for those convicted of martial law violations. Jaruzelski's aide Gornicki said that Lech Walesa and other leaders of Solidarity will remain in custody.

-- claimed the government will encourage workers' self-management and self-governing trade unions, but ruled out a resurrection of Solidarity.

-- noted that martial law might be abolished by the end of the year if peace and quiet are established, although even then it will be replaced by "special powers."

-- said the Pope's visit is being postponed until next year.

-- announced that some restrictions on post and telephone communications inside and outside the country will be eased and that foreign travel regulations will be relaxed, and

-- identified Washington as the archenemy in an apparent effort to split us from our Allies.

Jaruzelski's announced measures fulfill none of NATO's three conditions. Martial law remains in force, despite the relaxation of many of its provisions; the government has not opened a meaningful dialogue, and Jaruzelski made it clear that Solidarity will not be permitted to function. In addition, Warsaw put off the Pope's visit until some time next year. This is probably about as far as Jaruzelski felt he could safely go, however. Deep splits remain in the party leadership -- despite Olszowski's ouster from the Party Secretariat -- the populace remains openly hostile and the economy continues to deteriorate.

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We believe the regime's insistence on a meeting between Jaruzelski and the Pope -- with all the publicity that it would generate -- together with its attempt to limit and restrict the trip, made a Papal visit next month impossible. The Pope wanted to visit a number of cities, while the Government, according to one report, wanted to limit him to one city and a single day in Poland. In addition, the Pope probably was not ready to accord the General the legitimacy which a meeting would have entailed without a more complete satisfaction of the Church's demands (which parallel those made by NATO) than announced on July 21.

The decision to postpone the Papal visit until next year will be a course of great disappointment to the Polish people. As both sides keep alive the prospect of a visit, the Church will continue to urge the militants to act with restraint.

Rakowski's strong attack on Solidarity in the Sejm which elaborated Jaruzelski's similar comments casts a further shadow on the future of that union and may encourage some Solidarity elements to resume demonstrations. On the other hand, those who oppose demonstrations and strikes as only leading to further repression, will be able to point to the release of the 1227 detainees and the easing of some martial law restrictions as encouraging steps -- albeit very limited -- in the right direction.

We do not yet have a good fix on how Solidarity will react. Jaruzelski's actions may be attractive to some Solidarity leaders but they are likely to be sharply rejected by others and by most of the rank and file. Meanwhile there have been signs of restiveness among workers and growing agitation by Solidarity activists even before Jaruzelski spoke. As a consequence, sentiment for strike action after the underground leadership's current moratorium ends on July 31 may be on the rise among the union's rank and file.

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The important unanswered question is how the Polish populace will react to the recent Polish Government action. After the long and intense buildup Jaruzelski's July 21 speech (aided by numerous Polish Government leaks), the high expectations held by many Poles has certainly been disappointed. Postponement of the Papal visit will add to the sense of disappointment, and a psychological reaction can be expected. Whether this takes the form of sullen non-cooperation or overt demonstrations and strikes, remains to be seen. A peaceful crowd gathered at Victory Square, July 22, to replace the cross of flowers which had been removed by Polish authorities prior to the official national day ceremonies and there do not appear to have been any incidents with the Police. However, the situation in Poland remains potentially volatile, and the primary impact of Jaruzelski's speech will be to convince the average Pole that reconciliation, if and when it comes, will be on the General's terms and a long term process.

The ouster of Olszowski from the Party secretariat and his appointment as Foreign Minister represent a clear victory for Jaruzelski. Assuming he remains committed to reconciliation, as he claims he is, his ability to continue movement in that direction has been enhanced. At the same time, it is important to emphasize that Olszowski is a survivor. While the post he now occupies is of lesser importance than the Party post he gave up, he remains an important political force in Warsaw, and can be expected to try to use his new position to try to recoup his losses.

As for the Soviets, they have remained as opposed to compromise as ever. During the period when the Polish Government was deciding what to do on July 22, the Soviets publicly castigated Solidarity and expressed opposition to the Papal visit. The reserved character of Soviet coverage of recent Soviet developments again suggests that their council to the Poles is to break the opposition, isolate the Church and get on with rebuilding the standard Communist mechanisms for firm regime control. Given the depth and breadth of the Polish regime's continuing difficulties, Soviet advice must be paid attention to, and this continues to act as a powerful brake on any Polish inclination to pursue reconciliation.

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Rescheduling Poland's 1982 Debt IssueIssue

Are the Polish measures taken on July 21, 1982 sufficient to permit us to re-open talks on rescheduling Poland's 1982 debt service obligations?

Expected European Position: We can expect some Europeans to want to use the Polish measures as a vehicle to advance discussions on 1982 rescheduling.

At a July 1982 meeting of Poland's major creditors, several European countries expressed their view that such talks, either formal or "technical" should commence shortly. The British believe that by not rescheduling, we are providing the Poles with a de facto 100 percent rescheduling and are letting the Poles off the hook. The Swedes and other small creditors advanced the case for "technical talks" with the Poles on their 1982 debt, i.e., talks that would analyze their needs and request but not involve negotiation. The Germans took a middle ground, stating that the Polish debt situation could not continue indefinitely. They suggested that as a first step in re-establishing a dialogue, we should meet with the Poles to review their progress on their economic stabilization program, as provided for in the 1981 Paris Minute (paragraph 2b). The French argue that without rescheduling the chances of Polish default are enhanced; this could have adverse repercussions for major debtor countries outside Eastern Europe.

U.S. Position

1. The measures taken to date are insufficient in political terms to warrant a resumption of talks with the Poles -- either formal or technical -- on rescheduling 1982 maturities.
2. Because we and other creditors have not been paid in full on the non-rescheduled portion of the 1981 debt, we are prevented from entering into discussions with the Poles on their 1982 debt at this time. Hence, there is no good economic reason to begin rescheduling talks, and creditors should insist that Poland pay their 1981 arrears before talks on 1982 maturities can even be considered.
3. If others press for some type of discussion with the Poles on their debt situation, we would be willing to meet with the Poles to review their economic stabilization program as provided for in paragraph 2b of the Paris Minute. The review could not in any way involve a discussion of the Polish 1982 debt situation.

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4. We do not share the French view on the "domino effect" of a potential Polish default. The debt situations in Eastern Europe are sui generis and COMECON defaults need not serve as models of behavior for debtor countries in the West. However a Polish default would have spillover effects on other Eastern European countries including Yugoslavia.

5. Official creditors can usefully wait until the results of the private banks' talks with the Poles become clearer.

Background

1981 Official Rescheduling

-- In April 1981, governments of sixteen Western countries agreed to reschedule 90 percent of the principal and interest.

-- The U.S. share was \$381 million.

-- Repayment terms provided for four years grace and four years repayment, the latter commencing in 1986.

-- Of the ten percent of principal and interest which was not rescheduled, (\$42 million), the U.S. has received payments of some \$16 million. Other major creditors -- Germany, Italy and France -- also have not received full payment of the non-rescheduled portion.

1982 Official Rescheduling

-- Talks between the sixteen Western countries and Poland on rescheduling 1982 maturities were terminated in December of last year when the Polish government imposed martial law.

-- Subsequently, it was agreed by NATO countries that these talks would be held in abeyance. Such talks would be resumed subject to the lifting of martial law release of the detainees, and the resumption of a dialogue between the government, the Church, and Solidarity.

-- In June 1982, Mr. Z. Karcz of the Polish Finance Ministry wrote to Mr. M. Camdessus, Chairman of the Creditor Group for Poland urging a renewal of debt rescheduling talks.

-- In July, Camdessus replied to Karcz that a consensus among the official creditors for resuming rescheduling talks did not now exist. He also indicated that the official creditors hoped there would be developments which would permit such a consensus to emerge.

Private Rescheduling of 1981 Debt

-- In 1981, 501 western banks rescheduled Polish debt service

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obligations due them during the last 9 months of the year. The rescheduling was confined to 95 percent of the principal payments falling due (\$2.4 billion).

-- Payment of the remaining 5 percent of principal (\$160 million) was due in three equal installments beginning in May 1982.

-- The rescheduling agreement provided for a four year grace period and a four year repayment period.

Private Rescheduling of 1982 Debt

-- Representatives of the Western banks met with a Polish delegation on July 6, 1982 and again on July 19 to discuss rescheduling Poland's 1982 debt service obligations.

-- The bankers offered the same terms as in 1981 namely to reschedule 95 percent of principal (\$3 billion). The banks wanted all interest payments falling due in 1982 (\$1.9 billion) as well as the interest on the 1981 rescheduling (\$0.4 billion) to be paid. There has been little payment on these interest obligations.

-- The banks subsequently offered to provide short-term trade credits of up to 50 percent of the interest payments due in 1982. These short-term credits will be tied to exports from the country granting the credits and will be structured so that they can be terminated if interest is not paid.

-- The Poles have requested 100 percent of principal, trade credits equal to 80 percent of interest, and \$300 million in "new money". If realized, this would nearly eliminate any net outflow from Poland to private Western creditors. The banks are unlikely to accept this Polish demand, and further negotiations are certain to take place.